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Lionberger, Isaac Henry

The ebb tide

St. Louis, Mo.

1921

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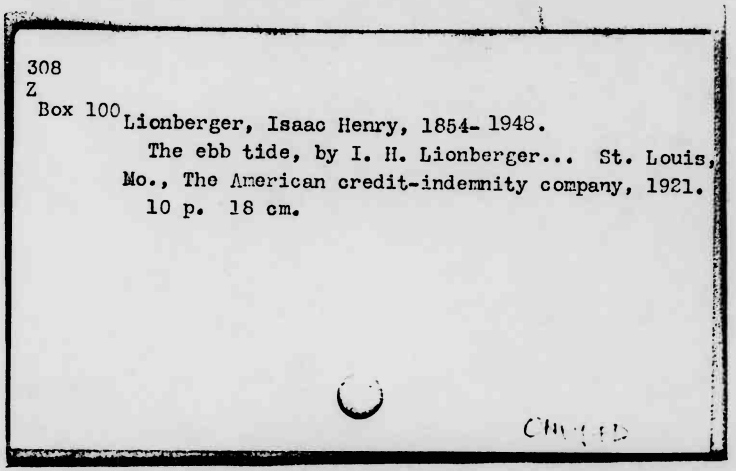
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The EBB TIDE

By
I. H. LIONBERGER
CHAIRMAN OF
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Published by
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THE EBB TIDE

An observer may stand upon the shore and watch the rising tide creep higher and higher until it gently reaches its flood, or else the furious waters driven by a storm mount rapidly as though they meant to beat away all barriers, and then recede sullenly and reluctantly, or quietly and peacefully—but always the tide to rise and fall. So it is with business. Its tides are not less various and recurrent. They also rise and fall, gently or tumultuously in harmony with the forces which control them.

The period of flood ending with the summer of 1920 was in all respects the most remarkable in our economic history. Never before was there such a demand for goods, never were prices so high nor profits and wages so easily won. Then the tide turned, the ebb began, sullen and reluctant but as inexorable as destiny. We who observed, perplexed by the violence of the forces engaged and alarmed perhaps by the abnormal progress of the boom, could not know precisely when its crest would be reached, but none doubted that it would be reached. Why did so many neglect to do what the crisis required?

The stubborn resistance of traders and farmers and planters to falling prices and of workmen to

falling wages is no less remarkable than the attempt of Mrs. Partington to stay the storm with a broom, for it cannot be doubted that they, as was she, will be punished for their folly. Insolvencies have already increased. Works are running on half time. Millions of men lack employment.

The situation is interesting, and ought to be instructive. The factors contributing to it are now known. What everybody denied while the frenzy was on, none will now dare to deny. The waste of the war and the desolation of Europe resulted in an abnormal demand for commodities of all sorts. Inflation, arbitrary credits and easy borrowing induced lavish buying. After a little while we began to suffer from the high cost of living and everybody complained of the seller—even the workmen. We invented an ugly word and used it constantly. Profiteers were prosecuted, and we tried to tax them to death, for none perceived even so simple a thing as that in time of scarcity he who uses appropriate means to check extravagance is a public benefactor.

As soon as the waste had been checked by high prices, we began to complain of the reaction. Prices declined, works were closed, men were discharged and a new word was invented to express the discontent of the moment. "Stabilize" was

in every mouth, we revived the war Finance board and created a billion dollar trading company to sell for producers goods for more than they were worth, and the labor unions declared that they would never surrender their inalienable right to get more for labor than labor produced. Nevertheless, dull trade followed. Goods were marked down, first by the manufacturer, then by the jobber and lastly by the retailer. Wages declined and insolvencies increased. Then we began to deprecate pessimism, and everybody promised a brighter future. Mr. Gary counseled hope, Mr. Schwab predicted a return of prosperity. The farmers and planters held off, obligations were renewed and an irritable, bitter resistance was opposed to the inexorable progress of the reaction.

So we proceeded from folly to folly, all the while hiding from ourselves the hateful fact that waste can never cause prosperity. What lies ahead of us? Is the tide ebbing, or will it come back and lift us again to the feverish delirium of the last five years?

I cannot think so. Living beyond one's means may make us feel rich for a little while, but when the money is all gone it is idiotic to think we can escape the consequences. The argument for higher prices is fallacious. Prices are still abnormally

high. They must fall. The influences which compel a decline are irresistible. Restricted production resulting from the closing of factories cannot add to the purchasing power of the community. Trade still involves the exchange of goods for goods, and to produce few is not to have many to trade with. The foreign markets have been saturated, imports are increasing. Some day we will be paid the debts the nations owe us with goods. Men out of work are not extravagant buyers. Scant profits cannot sustain us in luxury. Deflation has begun. Holding off may for a time suspend the inevitable, but money borrowed must be paid and goods must somehow be sold to pay debts. All of these influences make for cheaper goods, but more than all the rest there is an influence so strong, so constant, so insidious, that none can resist it, not even the government and bad laws and high taxes and stubborn stupidity.

Let the reader consider what an intelligent man might have done during the recent crisis. If, anticipating what was inevitable, he had conducted his business accordingly, what preparation might he have made for the reaction? In the first place, he might have disposed of all his stock at the prevailing high prices, collected all outstanding accounts and paid his debts; then he might have

renovated, re-arranged and improved his plant, using if he were a manufacturer all his brains and experience and such assistance as was available, to increase its efficiency. Then he might have waited for the expected decline of prices, and after such decline had proceeded far enough, bought raw materials, selected the best of his employes, started his factory, ascertained the new cost of goods, and put them on the market at greatly reduced prices—at such prices in fact that none who had not been as wise as himself could compete with him.

I have stated the case as if it were hypothetical, but does anyone doubt that among the thousands of successful captains of industry some have not been wise enough to follow the dictates of both reason and experience? Granting that there have been several such in every department of industry, is it not equally obvious that imprudent men, whether makers, or distributors of goods, cannot hope to sustain prices in competition with new goods so made and offered? Prices rose during the war 150%, they have fallen less than 30%. Many raw materials have declined to a pre-war level. How can any reasonable man expect that there will not be a further decline in the prices of finished products?

The foregoing is the practical point of view. In its historical aspect the situation is not less interesting. We have had many wars. Our Civil war was prolonged and wasteful. Immediately after it was over prices began to fall and continued to fall for thirty years. The decline in this instance was accelerated by the heavy importation of goods from abroad immediately after the war was over. The recent war was not followed by any such flood of goods, and we must look elsewhere for a precedent. During the first fifteen years of the last century all the civilized nations of Europe as well as America were engaged in conflict and the waste of such conflict was enormous—as great perhaps, relatively to the resources of the people engaged, as the waste of the German war. What followed? The number which indicates average prices of commodities was 189 in 1809, 159 in 1818, 89 in 1846 and 61 in 1896. Notwithstanding the waste of the Napoleonic wars, prices began to fall immediately after its termination and followed a downward tendency until a new war temporarily and for a brief time checked the decline. Between 1815 and 1840 there was general unrest. Steam railroads, better methods of treating ores, the general introduction of machinery in lieu of hand labor, the emancipation of trade, lessened the

cost and forced down the prices of all commodities, in spite of the stubborn resistance of farmers, graziers and hand-loomers. Is not our present situation in many respects like that which resulted from the Napoleonic wars? Many men think that it is.

Theoretically, that is from an economic point of view, no less plausible an argument may be made for caution and readjustment. Certain facts none can deny. Exports are falling off, imports are increasing, raw material is cheaper, wages have declined, factories have become more efficient, and prices have fallen. Is it credible that in the brief period of six months or a year we can have accomplished all that can be done? Old stocks have not yet been exhausted, the decline in prices is inconsiderable in comparison with the former rise. Does the future promise no more in the way of industrial progress? This is a grave question, fit for the deliberate and dispassionate consideration of men of affairs. We submit it without argument, for none can add to the eloquence of the facts by which we are confronted.

If in view of these considerations we assume that a gradual decline in prices is inevitable, the future is not necessarily dark. There is still an enormous amount of work to do. We have de-

stroyed thirty billions of our national wealth. We must replace it in order that the capital requisite for our growth and development may not be lacking. We cannot accumulate this vast sum quickly by shutting down factories and discharging workmen. There should be work for everybody, but it must be honest, efficient work, work which results in constantly cheapening commodities, a wider market, an easier distribution and a gradual increase in the goods of the world.

There is room for hope. The war is over, its waste has ceased. Living will be easier, taxes must be reduced, rates of interest are declining and capital is accumulating. If, desisting from mutual recrimination and pestering laws and hindering conspiracies, we set ourselves resolutely to the work which must be done, the future is rather promising than ominous; but unless the stubborn resisters of our progress be somehow brought to reason, we shall have a long period of conflict and of calamity, like that which followed the wars of Napoleon.

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TITLE